

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

ADJUSTMENT OF RATES OF LOCKWOOD)	
ESTATES DEVELOPMENT CORP. AND)	
REQUEST UNDER PROPOSED)	CASE NO. 8445
807 KAR 5:076 TO DISPENSE WITH)	
THE FORMAL HEARING REQUIREMENT)	

O R D E R

PROCEDURAL BACKGROUND

On January 25, 1982, Lockwood Estates Developing Corporation ("Lockwood Estates") filed with the Commission an application seeking approval of a proposed adjustment to its existing flat rate for providing sewer service. The proposed rate sought by Lockwood Estates would yield additional gross annual revenues of \$1,389, an increase of 50 percent above test period revenues. The Commission, in this order, has granted the full requested increase in revenues.

On February 1, 1982, the Consumer Protection Division of the Attorney General's Office filed a letter with the Commission stating that after reviewing the application and exhibits it had decided not to intervene. There were no other protests or petitions to intervene.

The Commission, having considered the matter, is of the opinion and finds that a hearing is not in the public

interest. The additional cost incurred in connection with the hearing process would result in increased expenses for the utility and ultimately, higher rates for the ratepayer. Moreover, the record in this case contains sufficient information to determine a fair, just and reasonable rate.

TEST PERIOD

For the purpose of determining the reasonableness of the proposed rate, the 12-month period ending November 30, 1981, has been accepted as the test period.

REVENUES AND EXPENSES

Lockwood Estates proposed several pro forma adjustments to actual operating revenues and expenses as reflected in its comparative income statement for the 12 months ended November 30, 1981.^{1/} The Commission finds these adjustments reasonable and has accepted them for rate-making purposes with the following exceptions:

Depreciation Expense

Lockwood Estates included a pro forma adjustment to operating expenses for depreciation expense of \$3,961 per year. Exhibit No. 13 indicates that the sewage treatment facility was designed to accommodate 112 homes. There were 22 customers receiving sewer service during the test period,

^{1/} Exhibit No. 10.

and the record in the case indicates that there will be few, if any, customers added in the near future. The Commission is of the opinion that the ratepayers should not bear the total cost of depreciation expense related to the excess capacity of the sewer system but that this expense should be shared equally between the ratepayers and the utility owners. The Commission has, therefore, reduced this expense by \$1,592.^{2/}

Rate Case Expense

Originally, Lockwood Estates estimated total rate case expense of \$2,500 and proposed to amortize the cost over a 2-year period. Subsequently, the utility, through its attorney, filed a revised estimate of \$1,200 because of the acceptance of this limited filing. The Commission will allow the utility to recover this cost by an annual charge to operating expenses of \$400 over a 3-year amortization period.

Therefore, Lockwood Estates' adjusted operations at the end of the test period are as follows:

	<u>Actual</u>	<u>Adjustments</u>	<u>Adjusted</u>
Operating Revenues	\$ 2,769	\$ 1,389 ^{3/}	\$ 4,158
Operating Expenses	11,740	(420)	11,320
Net Operating Loss	<u>\$ (8,971)</u>	<u>\$ 1,809</u>	<u>\$ (7,162)</u>

^{2/} $90/112 = 80.36\% \times \$3,961 \div 2 = \$1,592.$

^{3/} Increase requested.

FINDINGS AND ORDER

The Commission, after consideration of the evidence of record and being advised, is of the opinion and finds that:

1. A hearing, in this instance, is not in the public interest. The additional cost incurred would result in increased expenses for the utility and ultimately, higher rates for the ratepayer. Moreover, the record in this case contains sufficient information to determine a fair, just and reasonable rate.

2. The residential flat rate in Appendix A should produce gross annual revenues of approximately \$4,158 from 22 customers and is the fair, just and reasonable rate for sewer service rendered by Lockwood Estates to customers located in the Lockwood Estates Subdivision, Oldham County, Kentucky.

3. Lockwood Estates indicated to the Commission that increased revenues of \$1,389 are needed to minimize the losses presently being sustained by the utility and to continue giving adequate and reasonable service to its customers. The Commission is of the opinion that the rate allowed herein which was requested by Lockwood Estates does not reflect all of the costs of operating the treatment system. Therefore, full disclosure to present owners of property in the subdivision as well as prospective purchasers is necessary and should be given in substantially the following form:

The current rate for sewer treatment services for the subdivision is not sufficient to cover operating expenses without a subsidy from the developer. If development does not continue as anticipated, your sewer rate may increase substantially.

4. Lockwood Estates has filed with this Commission a valid third-party beneficiary agreement.

IT IS THEREFORE ORDERED that the rate in Appendix A is hereby fixed as the fair, just and reasonable rate to be charged by Lockwood Estates for sewer service rendered on and after the date of this order.

IT IS FURTHER ORDERED that Lockwood Estates be and it hereby is directed to abide by the conditions in Finding No. 3. Further, that Lockwood Estates shall notify each present customer within 30 days of the date of this order and shall furnish to the Commission written acknowledgment of notice as contained in Appendix B to this order within 40 days of the date of this order. Further, Lockwood Estates shall furnish to the Commission on a quarterly basis written acknowledgment of notice from each prospective customer as contained in Appendix B to this order.

IT IS FURTHER ORDERED that within 20 days of the date of this order, Lockwood Estates shall file its tariff sheets setting forth the rate approved herein.

IT IS FURTHER ORDERED that to insure that all affected parties have the opportunity to express an opinion with respect to the rate approved herein, Lockwood Estates shall,

within 10 days of the date of this order, mail to each customer a notice setting forth the approved rate. This notice shall also contain the following language:

After analyzing the information in the application, the Commission has determined that the approved rate is required to enable the Lockwood Estates Developing Corporation to meet its operating expenses and to continue to provide adequate service and, further, that the holding of a hearing in this matter would not be in the public interest as it would place additional costs on the utility and ultimately the ratepayer. However, if any customer desires to make a statement concerning the approved rate or to request a hearing in this matter at the Commission's Offices in Frankfort, Kentucky, he/she may do so by mailing the statement or request by April 27, 1982, to the Public Service Commission, P. O. Box 615, Frankfort, Kentucky 40602. A copy of the information should also be provided to the Attorney General's Consumer Protection Division, 209 St. Clair Street, Frankfort, Kentucky 40601.

IT IS FURTHER ORDERED that Lockwood Estates shall file with the Commission, with a copy to the Attorney General's Consumer Protection Division, a copy of the notice and a statement that notice was given as required herein.

Done at Frankfort, Kentucky, this 7th day of April, 1982.

PUBLIC SERVICE COMMISSION

Marlin M. Voth
Chairman

Katherine Randall
Vice Chairman

Lem Parrigan
Commissioner

ATTEST:

Secretary

APPENDIX A

APPENDIX TO AN ORDER OF THE PUBLIC
SERVICE COMMISSION IN CASE NO. 8445
DATED APRIL 7, 1982

The following rate is prescribed for sewage disposal services rendered to all residential customers served by the Lockwood Estates Developing Corporation, located in the Lockwood Estates Subdivision, Oldham County, Kentucky:

Type of Service Provided

Monthly Rate

Single Family Residential

\$15.75 per residence

APPENDIX B

APPENDIX TO AN ORDER OF THE PUBLIC
SERVICE COMMISSION IN CASE NO. 8445
DATED APRIL 7, 1982

I have read and fully understand the following:

The current rate for sewer treatment services for the subdivision is not sufficient to cover operating expenses without a subsidy from the developer. If development does not continue as anticipated, my sewer rate may increase substantially.

Customer's Signature

Address

Date